

BEFORE THE ARIZONA CORPORATION COMMISSION

1 Arizona Corporation Commission 2 DOCKETED COMMISSIONERS 3 ROBERT "BOB" BURNS - Chairman SEP 1 3 2019 4 BOYD DUNN SANDRA D. KENNEDY DOCKETED BY 5 JUSTIN OLSON LEA MARQUEZ PETERSON 6 In the matter of 7 DOCKET NO. S-21055A-18-0309 SKYTRACE, Inc., an Idaho corporation, 8 77411 ROBERT S. SMITH (CRD #1145094), and DECISION NO. 9 JANICE SMITH, husband and wife, and 10 ROLAND B. WOOLSEY, a married man, ORDER TO CEASE AND DESIST, ORDER FOR RESTITUTION, ORDER FOR 11 ADMINISTRATIVE PENALTIES AND CONSENT TO SAME 12 Respondents. BY: ROBERT S. SMITH and JANICE SMITH 13 14 Respondents Robert S. Smith and Janice Smith (collectively, "Respondents") elect to 15

permanently waive any right to a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 et seq. ("Securities Act") with respect to this Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties, and Consent to Same ("Order"). Respondents admit the jurisdiction of the Arizona Corporation Commission ("Commission"); admit only for purposes of this proceeding and any other proceeding in which the Commission is a party, the Findings of Fact and Conclusions of Law contained in this Order; and consent to the entry of this Order by the Commission.

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I.

FINDINGS OF FACT

1. At all times relevant, Robert S. Smith ("Smith") was married to Janice Smith, and both were residents of Arizona. Smith has not been registered with the Commission as a securities salesman or dealer.

- 2. Since at least October 5, 1993 until at least December 2, 2003, Smith was registered with the Washington State Department of Financial Institutions Securities Division in association with broker-dealer Safeco Investment Services, Inc. ("Safeco"), as a securities salesperson (CRD #1145094), based in the state of Washington.
- At all times relevant, Roland B. Woolsey ("Woolsey") was married and a resident of
 Idaho. Woolsey has not been registered by the Commission as a securities salesman or dealer.
- 4. At all times relevant, Skytrace, Inc. ("Skytrace") was an Idaho corporation organized under the laws of the state of Idaho in January of 2012. Skytrace also operated under the assumed business names Unblinking Infomatics and Unblinking Technologies. Smith and Woolsey were the incorporators and directors of Skytrace. Skytrace has not been registered with the Commission as a securities salesman or dealer.
- 5. Janice Smith was at all relevant times the spouse of Smith. Janice Smith may be referred to as "Respondent Spouse." Respondent Spouse is joined in this action under A.R.S. §44-2031(C), solely for the purposes of determining the liability of the marital community.
- At all relevant times, Smith has acted for his own benefit and for the benefit or in furtherance of his and Respondent Spouse's marital community.
- 7. On or about January 23, 2007, the Washington State Department of Financial Institutions Securities Division ("WSD") filed a Statement of Charges and Notice of Intent to Enter Order to Cease and Desist and Notice of Intent to Deny Future Registration against Smith ("WSD Notice"). The securities offerings in Washington involved short-term promissory notes in two companies whose business purpose and/or monthly interest payments were similar to the Skytrace offering.
- 8. On September 18, 2007, WSD and Smith entered into a Consent Order ("WSD Consent Order"). Smith neither admitted nor denied the Tentative Findings of Fact and Conclusions of Law sections of the WSD Notice, which were incorporated by reference into the WSD Consent Order. Smith consented and agreed: to cease and desist from offering and selling securities in

 violation of the securities registration section of the Securities Act of Washington; to cease and desist from violating the anti-fraud section of the Securities Act of Washington; and to not apply for a broker-dealer, securities salesman, investment adviser or investment adviser representative license with WSD for three years.

- 9. In 2009, Smith and Woolsey created Skytrace to sell GPS fleet tracking and on-board diagnostic technology [also known as telematics] for application in the automobile industry. At all times relevant, Woolsey was the Chief Executive Officer of Skytrace. At all times relevant, Smith was the Chairman of the Board of Skytrace, Inc.
- 10. On or about November 2015, Smith and others offered and sold securities in the form of a promissory note ("Skytrace Note") within or from Arizona to at least one Arizona resident ("AZ Investor").
- 11. In October of 2015, Smith moved to Arizona and became a member of the Alta Mesa country club in Mesa, Arizona (hereinafter "Alta Mesa Country Club"). Shortly thereafter, Smith was introduced to the AZ Investor and her husband ("Offeree 1"), by mutual acquaintances, at the Alta Mesa Country Club. Smith represented to the AZ Investor and Offeree 1 that he co-founded Skytrace, which was a start-up company that had enormous potential.
- 12. On several occasions Smith joined Offeree 1's group to play golf. During a round of golf at the Alta Mesa Country Club, Smith offered Offeree 1 an opportunity to "invest in a short-term, high interest paying loan agreement," which would have helped Skytrace "get off the ground" and nationally launch Skytrace's GPS fleet tracking and on-board diagnostic technology product. Offeree 1 asked Smith to provide him with succinct details regarding Skytrace and the investment opportunity.
- 13. Smith provided Offeree 1 with a one-page company profile ("Company Profile") of Unblinking Infomatics, which was an assumed business name of Skytrace. According to the Company Profile, Skytrace offered "a web-based application for dealers to manage their inventory ... [and] a phone and web-based application for auto owners to manage use of their vehicles." Further,

Skytrace was seeking to raise \$10,000,000 in investment capital, and was projected to generate \$413,319,750 in total revenue by 2018.

- 14. Smith had follow-up conversations with both AZ Investor and Offeree 1, regarding the investment opportunity in Skytrace. During one of the conversations, AZ Investor asked Smith if he was certain that Skytrace would be a success. In response, Smith represented to the AZ Investor and Offeree 1 that he had other large investors ready to invest up to \$10 million dollars in Skytrace. However, during the relevant time-period, Smith never attained investment commitments from any large investors.
- 15. Smith further represented to the AZ Investor that the Skytrace investment "was offering a better interest rate [2.5%]" than the 1% to 2% the AZ Investor was already earning.
- 16. Smith further provided the AZ Investor and Offeree 1 with a copy of Skytrace's M2M Platform Investment Profile ("Investment Profile"). The Executive Summary section of the Investment Profile stated "Skytrace is seeking investment [sic] to scale production of its second generation Mobile to Mobile (M2M) platform ... [t]he platform creates new and unique value in the market (~\$750M)."
- 17. The AZ Investor decided to individually invest in Skytrace. On or about November 3, 2015, Smith met the AZ Investor and Offeree 1 at their home in Mesa, Arizona. The AZ Investor issued a check for \$150,000 to Skytrace and gave the check to Smith. In exchange for the check, Smith gave the AZ Investor a promissory note issued by Skytrace ("Skytrace Note"), which was executed by the AZ Investor and later by Woolsey.
- 18. According to Exhibit A of the Skytrace Note, Smith and others relied on a Regulation-D exemption from registration. Smith and others failed to ask and/or verify whether the AZ Investor and/or Offeree 1 were accredited investors. When in fact, neither AZ Investor nor Offeree 1 were accredited investors.
- 19. According to the Skytrace Note, "[t]his Note is delivered in Mesa, Arizona, and it shall be deemed to have been made there."

- 20. According to the Skytrace Note, the AZ Investor was promised interest payments of 2.5% [\$3,750] each month for the first four months of the loan agreement. And, the entire unpaid balance of \$150,000 "shall be due and payable on March 1, 2016." If the Debtor "defaults under the terms of this Note ... then all indebtedness evidenced by this Note, together with all other monies owing by Debtor to Lender shall be due and payable immediately in full without notice, at the election of the Lender."
- 21. The Warrants section of the Skytrace Note stated "Debtor agrees to hold 150,000 shares of class A common stock in reserve for Lender (Warranty Stock) and Lender has the right at any time during the term of this Note to request in writing the exchange of debt for stock at the rate of \$1 of debt for 1 share of stock to a total of \$150,000 shares of stock in exchange for the entire debt."
- Neither the Skytrace Note nor Skytrace's common stock have been registered with the Commission.
- 23. Smith deposited the AZ Investor's investment check into Skytrace's bank account at Wells Fargo Bank. At all relevant times, Smith and another individual were the signatories of Skytrace's bank account.
- 24. On or about December 1, 2015, the AZ Investor received her first interest payment in the amount of \$3,275, which was \$475 short of the promised 2.5%. On or about December 8, 2015, Offeree 1 contacted Smith on behalf of the AZ Investor, via email, regarding the underpayment of the interest payment. On or about December 9, 2015, the AZ Investor and Offeree 1 received a response, via email that stated "[t]he issue with the check was likely transposition of numbers either on my end or accounting ... I will get it rectified tomorrow."
- 25. On January 3, 2016, Smith sent an email ("January 2016 Email") to two individuals, which was a follow-up to a prior conversation at the Alta Mesa Country Club. One of the individuals, who received the email was a resident of Arizona ("Offeree 2"). The other individual who received

the email was a resident of Colorado ("Offeree 3"). The Subject line in the email stated "SkyTrace Investment Information." Attached to the email was Skytrace's M2M Platform Investment Profile.

26. According to the January 2016 Email, Smith offered Offeree 2 and Offeree 3 an opportunity to invest in Skytrace. The email stated in pertinent part:

Further to our conversation in Alta Mesa [Alta Mesa Country Club] I have attached a copy of the power point presentation we prepared for T-Systems North America (TSNA, a division of Duetsche [sic] Telekom) which highlights our position and strengths in the M2M space. TSNA has verbally committed to acquire 10% interest in SkyTrace, Inc., our parent company, upon the successful launch of MyCar/CarMatics which is scheduled for this month. I have verbally communicated to the position we have with over 6000 dealerships in the space, superior technology, and a "war chest" with 10's of millions in committed "lot loading" funding. We are currently seeking participation from "friends and family" for up to \$1MM in amounts of \$100K or more to aggressively attack this market opportunity.

- 27. For the month of January 2016, the AZ Investor did not receive her promised 2.5% interest payment of \$3,750. On or about February 2, 2016, the AZ Investor received an interest payment in the amount of \$4,225. The additional \$475 only covered the remaining balance that was due on the December 2015 interest payment.
- 28. On or about February 15, 2016, the AZ Investor sent an email to Smith and others, the email had an attached letter which stated, "I elect to exercise my right to be repaid by check my principle [sic], and remaining interest due, in the total amount of \$157,000 on or before March 1, 2016." On February 15, 2016, Smith sent a response to AZ Investor, via email that stated "[w]e have received your email and acknowledge your request."
- 29. From at least April of 2016, to at least August of 2016, the AZ Investor sent at least three Demand of Payment letters to Smith and others, via email. From at least October of 2016, to at least June of 2017, Offeree 1 sent at least three Demand of Payment letters, on behalf of AZ Investor, to Smith and others, via email.
- 30. The AZ Investor invested \$150,000 and only received \$7,500 back. The remaining principal owed is \$142,500.

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Omissions of Material Facts

- 31. Smith failed to disclose the WSD Consent Order to the AZ Investor and Offeree 1.
- 32. Smith failed to disclose to the AZ Investor that the WSD Consent Order included allegations that Smith offered investment opportunities that involved short-term promissory notes to investors in a company [similar to Skytrace], which manufactured global positioning devices for vehicle tracking purposes, and none of these investors received any return on their investments.
- 33. Smith failed to disclose to the AZ Investor that the WSD Consent Order included allegations that Smith offered investment opportunities that involved promissory notes to investors who were promised monthly payments [similar to the Skytrace Note] and those investors stopped receiving their promised payments after a few months.

II.

CONCLUSIONS OF LAW

- The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.
- 2. Respondent Smith offered or sold securities within or from Arizona, within the meaning of A.R.S. §§ 44-1801(16), 44-1801(22), and 44-1801(27).
- Respondent Smith violated A.R.S. § 44-1841 by offering or selling securities that were neither registered nor exempt from registration.
- 4. Respondent Smith violated A.R.S. § 44-1842 by offering or selling securities while neither registered as a dealer or salesman nor exempt from registration.
- 5. Respondent Smith violated A.R.S. § 44-1991 by making untrue statements or misleading omissions of material facts.
- Respondent Smith's conduct is grounds for a cease and desist order pursuant to A.R.S.
 § 44-2032.
- Respondent Smith's conduct is grounds for an order of restitution pursuant to A.R.S.
 § 44-2032.

Respondent Smith's conduct is grounds for administrative penalties under A.R.S. §
 44-2036.

9. Respondent Smith acted for his own benefit and on behalf of and for the benefit of Respondent Smith's and Respondent Spouse's marital community. This order of restitution and administrative penalties is a debt of the community.

III.

ORDER

THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and Respondents' consent to the entry of this Order, attached and incorporated by reference, the Commission finds that the following relief is appropriate, in the public interest, and necessary for the protection of investors:

IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondent Smith, and any of Respondent Smith's agents, employees, successors and assigns, permanently cease and desist from violating the Securities Act.

IT IS FURTHER ORDERED that Respondents comply with the attached Consent to Entry of Order.

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent Smith, as his sole and separate obligation, and Respondent Smith and Respondent Spouse, as a community obligation, shall jointly and severally with all Respondents against whom orders are entered under Docket No. S-21055A-18-0309, pay restitution to the Commission in the principal amount of \$142,500 as a result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing account controlled by the Commission. Any principal amount outstanding shall accrue interest from the date of this Order until paid in full.

IT IS FURTHER ORDERED that the restitution ordered in the preceding paragraph will accrue interest, as of the date of the Order, at the rate of the lesser of (i) ten percent per annum or (ii) at a rate per annum that is equal to one per cent plus the prime rate as published by the board of

governors of the federal reserve system in statistical release H. 15 or any publication that may supersede it on the date that the judgment is entered.

The Commission shall disburse the funds on a pro-rata basis to investors shown on the records of the Commission. Any restitution funds that the Commission cannot disburse because an investor refuses to accept such payment, or any restitution funds that cannot be disbursed to an investor because the investor is deceased shall be disbursed on a pro-rata basis to the remaining investors shown on the records of the Commission. Any funds that the Commission determines it is unable to or cannot feasibly disburse shall be transferred to the general fund of the state of Arizona.

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent Smith, as his sole and separate obligation, and Respondent Smith and Respondent Spouse, as a community obligation, shall jointly and severally pay an administrative penalty in the amount of \$10,000 as a result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona." Any amount outstanding shall accrue interest as allowed by law.

IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be applied to the restitution obligation. Upon payment in full of the restitution obligation, payments shall be applied to the penalty obligation.

For purposes of this Order, a bankruptcy filing by Respondents shall be an act of default. If Respondents do not comply with this Order, any outstanding balance may be deemed in default and shall be immediately due and payable.

IT IS FURTHER ORDERED, that if Respondents fail to comply with this order, the Commission may bring further legal proceedings against the Respondents, including application to the superior court for an order of contempt.

IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this Order shall be deemed binding against any Respondent under this Docket Number who has not consented to the entry of this Order.

IT IS FURTHER ORDERED that this Order shall become effective immediately. 1 BY ORDER OF THE ARIZONA CORPORATION COMMISSION 2 3 RECUSED 4 COMMISSIONER DUNN CHAIRMAN BURNS COMMISSIONER KENNEDY 5 6 7 COMMISSIONER MÁRQUEZ PETERSON 8 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, 9 Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the 10 Commission to be affixed at the Capitol, in the City of Phoenix, this 13 day of September, 2019. 11 12 13 EXECUTIVE DIRECTOR 14 15 DISSENT 16 DISSENT 17 18 This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov. 19 20 (MS) 21 22 23 24 25 26

Decision No.

CONSENT TO ENTRY OF ORDER

- 1. Respondents Robert S. Smith and Janice Smith (each individual a "Respondent" or collectively "Respondents") admit the jurisdiction of the Commission over the subject matter of this proceeding. Each Respondent acknowledges that they have has been fully advised of their right to a hearing to present evidence and call witnesses and each Respondent knowingly and voluntarily waives any and all rights to a hearing before the Commission and all other rights otherwise available under Article 11 of the Securities Act and Title 14 of the Arizona Administrative Code. Each Respondent acknowledges that this Order to Cease and Desist, Order for Restitution, Order for Administrative Penalties, and Consent to Same ("Order") constitutes a valid final order of the Commission.
- 2. Respondents knowingly and voluntarily waive any right under Article 12 of the Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief resulting from the entry of this Order.
- Each Respondent acknowledges and agrees that this Order is entered into freely and voluntarily and that no promise was made or coercion used to induce such entry.
- 4. Respondents Robert S. Smith and Janice Smith acknowledge that they have been represented by their attorney in this matter, Respondents Robert S. Smith and Janice Smith have reviewed this order with their attorney, Dennis K. Blackhurst of Gillette Blackhurst & Aldous PLC, and understand all terms it contains. Respondents Robert S. Smith and Janice Smith acknowledge that they have been apprised of their rights regarding any conflicts of interest arising from dual representation. Respondents Robert S. Smith and Janice Smith acknowledge that they have each given their informed consent to such representation.
- 5. Respondents admit only for purposes of this proceeding and any other proceeding in which the Commission is a party, the Findings of Fact and Conclusions of Law contained in this Order. Respondents agree that they shall not contest the validity of the Findings of Fact and

Conclusions of Law contained in this Order in any present or future proceeding in which the Commission is a party.

- 6. The Respondents further agree that they shall not deny or contest the Findings of Fact and Conclusions of Law contained in this Order in any present or future: (a) bankruptcy proceeding, or (b) non-criminal proceeding in which the Commission is a party (collectively, "proceeding(s)"). They further agree that in any such proceedings, the Findings of Fact and Conclusions of Law contained in this Order may be taken as true and correct and that this Order shall collaterally estop them from re-litigating with the Commission or any other state agency, in any forum, the accuracy of the Findings of Fact and Conclusions of Law contained in this Order. In the event, Respondent Robert S. Smith or Respondent Janice Smith pursues bankruptcy protection in the future, they further agree that in such bankruptcy proceeding, pursuant to 11 U.S.C. § 523(a)(19), the following circumstances exist:
- A. The obligations incurred as a result of this Order are a result of the conduct set forth in the Findings of Fact and Conclusions of Law in the Order and are for the violation of Arizona state securities laws, pursuant to 11 U.S.C. § 523(a)(19)(A)(i);
- B. This Order constitutes a judgment, order, consent order, or decree entered in a state proceeding pursuant to 11 U.S.C. § 523(a)(19)(B)(i), a settlement agreement entered into by Respondents Robert S. Smith and Janice Smith pursuant to 11 U.S.C. § 523(a)(19)(B)(ii), and a court order for damages, fine, penalty, citation, restitution payment, disgorgement payment, attorney fee, cost or other payment owed by Respondents Robert S. Smith and Janice Smith pursuant to 11 U.S.C. § 523(a)(19)(B)(iii).
- 7. By consenting to the entry of this Order, Respondents agree not to take any action or to make, or permit to be made, any public statement denying, directly or indirectly, any Finding of Fact or Conclusion of Law in this Order or creating the impression that this Order is without factual basis.

8. While this Order settles this administrative matter between Respondents and the Commission, Respondents understand that this Order does not preclude the Commission from instituting other administrative or civil proceedings based on violations that are not addressed by this Order.

- 9. Respondents understand that this Order does not preclude the Commission from referring this matter to any governmental agency for administrative, civil, or criminal proceedings that may be related to the matters addressed by this Order.
- 10. Respondent Robert S. Smith understands that this Order does not preclude any other agency or officer of the state of Arizona or its subdivisions from instituting administrative, civil, or criminal proceedings that may be related to matters addressed by this Order.
- 11. Respondent Robert S. Smith agrees that he will not apply to the state of Arizona for registration as a securities dealer or salesman or for licensure as an investment adviser or investment adviser representative until such time as all restitution and penalties under this Order are paid in full.
- 12. Respondent Robert S. Smith agrees that he will not exercise any control over any entity that offers or sells securities or provides investment advisory services within or from Arizona until such time as all restitution and penalties under this Order are paid in full.
- 13. Respondent Robert S. Smith agrees that he will continue to cooperate with the Securities Division including, but not limited to, providing complete and accurate testimony at any hearing in this matter and cooperating with the state of Arizona in any related investigation or any other matters arising from the activities described in this Order.
- 14. Respondents Robert S. Smith and Janice Smith acknowledge that any restitution or penalties imposed by this Order are community obligations.
- 15. Each Respondent consents to the entry of this Order and agrees to be fully bound by its terms and conditions.

Decision No.

- 16. Each Respondent acknowledges and understands that if they fail to comply with the provisions of the order and this consent, the Commission may bring further legal proceedings against them, including application to the superior court for an order of contempt.
- 17. Each Respondent understands that default shall render them liable to the Commission for its costs of collection, including reasonable attorneys' fees and interest at the maximum legal rate.
- 18. Each Respondent agrees and understands that if they fail to make any payment as required in the Order, any outstanding balance shall be in default and shall be immediately due and payable without notice or demand. Each Respondent agrees and understands that acceptance of any partial or late payment by the Commission is not a waiver of default by the Commission.

Robert S. Smith

Janice Smith

STATE OF ARIZONA) ss County of)

SUBSCRIBED AND SWORN TO BEFORE me this 22 day of August

August , 2019.

NOTARY PUBLIC

My commission expires:

7-28-2020



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1	SERVICE LIST FOR: Robert S. Smith et al.
2	Dennis K. Blackhurst, Esq.
3	Gillette Blackhurst & Aldous PLC 3850 E. Baseline, Suite 125
4	Mesa, Arizona 85206 Attorney for Robert S. Smith and Janice Smith
5	
6	Alan Baskin, Esq. Baskin Richards PLC
7	2901 N. Central Avenue, Suite 1150 Phoenix, Arizona 85012
8	Attorney for Roland B. Woolsey
9	Anthony B. Bingham, Esq.
10	Bingham Law 1423 S. Higley Rd., Suite 110
11	Mesa, Arizona 85206 Attorney for Skytrace, Inc.
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